

ORIGINAL



SOUTHWEST GAS CORPORATION



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AZ CORP COMMISSION
DOCKET CONTROL

February 27, 2015

Docket Control Office
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

Re: Docket No. G-01551A-10-0458; Decision No. 72723

Southwest Gas Corporation (Southwest Gas) hereby submits for filing an original and thirteen (13) copies of its Application for Approval to Set Customer Owned Yardline (COYL) Cost Recovery Mechanism Surcharge Rate. This Application is being submitted in compliance with Sections 5.15 through 5.18 of the Settlement Agreement approved by the Commission in Decision No. 72723 issued in Docket No. G-01551A-10-0458.

Please note that the Company's annual COYL report which is included as Exhibit 1 to the Application, contains exhibits (Exhibits D, E, and F) that are deemed confidential, proprietary, and commercially sensitive to Southwest Gas. Copies of the confidential exhibits are provided to the Staff of the Arizona Corporation Commission under separate cover in accordance with the existing Protective Agreement applicable to this docket.

If you have any questions, please contact me at 602-395-4058.

Respectfully,

Matthew Derr
Regulatory Manager/Arizona

Cc: Steve Olea, ACC
Bob Gray, ACC
Brian Bozzo, ACC
Robin Mitchell, ACC
David Tenney, RUCO

Arizona Corporation Commission

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FEB 27 2015

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 SUSAN BITTER SMITH – Chairman
4 BOB STUMP
5 BOB BURNS
6 TOM FORESE
7 DOUG LITTLE

8 In the Matter of the Application of
9 Southwest Gas Corporation for the
10 Establishment of Just and Reasonable
11 Rates and Charges Designed to Realize a
12 Reasonable Rate of Return on the Fair
13 Value of the Properties of Southwest Gas
14 Corporation Devoted to its Arizona
15 Operations; Approval of Deferred
16 Accounting Orders; and for Approval of an
17 Energy Efficiency and Renewable Energy
18 Resource Technology Portfolio
19 Implementation Plan.

Docket No.: G-01551A-10-0458

20 **APPLICATION FOR APPROVAL TO SET CUSTOMER-OWNED YARDLINE (COYL)**
21 **COST RECOVERY MECHANISM SURCHARGE RATE**

22 **Introduction**

23 1. Southwest Gas Corporation (Southwest Gas or Company) hereby
24 submits its application to the Arizona Corporation Commission (Commission),
25 respectfully requesting to update the previously approved surcharge rate related to its
26 Customer-Owned Yardline (COYL) program to reflect 2014 COYL activity.

27 2. Southwest Gas is a corporation in good standing under the laws of the
28 state of Arizona, is a corporation duly organized, validly existing, and is qualified to
transact intrastate business.

 3. Southwest Gas' corporate offices are located at 5241 Spring Mountain
Road, P. O. Box 98510 Las Vegas, Nevada 89193-8510. Communications regarding
this filing should be addressed to:

Catherine M. Mazzeo
Assistant General Counsel
Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702-876-7250
Email: catherine.mazzeo@swgas.com

Matthew Derr
Regulatory Manager
Southwest Gas Corporation
1600 Northern Avenue
Phoenix, AZ 85020
Phone: 620-395-4058
Email: matt.derr@swgas.com

4. Southwest Gas is a public utility subject to the jurisdiction of the Commission pursuant to Article XV of the Arizona Constitution and the applicable chapters of Title 40 of the Arizona Revised Statutes (A.R.S.). Southwest Gas currently serves approximately 1.9 million customers in the states of Arizona, California, and Nevada. Approximately 54 percent of the Company's customers are located in the state of Arizona, including portions of Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal, and Yuma counties. For operational purposes, Southwest Gas' Central Arizona division is headquartered in Phoenix and its Southern Arizona division is headquartered in Tucson.

Background

5. The Commission issued Decision No. 72723 in Southwest Gas' 2010 general rate case, which included approval of the Company's COYL program consistent with the terms of a Settlement Agreement involving the Company and various other parties to the docket, to replace all COYLs within the Company's Arizona service territory. In January 2014, the Commission issued Decision No. 74304, which modified Decision No. 72723 to create Phase II of the COYL program.

6. Through the original COYL program (now referred to as Phase I), the Company leak surveys COYLs in its Arizona service territories and provides those customers with leaking COYLs the opportunity to replace their COYLs with facilities owned and operated by Southwest Gas.¹ Through Phase II of the program, the Company offers customers the opportunity to replace their COYLs in coordination with

¹ Settlement Agreement, at §§5.13-5.19.

the Company's other pipeline replacement projects, and irrespective of whether or not the COYL is leaking.²

7. The Settlement Agreement requires that the Company file a report each February to provide various details on the program's performance.³ The Company's annual report, covering the period January 1, 2014 through December 31, 2014, is attached hereto as Exhibit 1. The report addresses both Phase I and Phase II of the program.

8. As detailed in the accompanying report, the COYL program continues to be successful. In Phase I, the Company discovered 2,012 leaking COYLs, with 1,952 of the affected customers electing to have Southwest Gas relocate their gas meters and replace their COYLs with facilities owned and operated by the Company – an acceptance rate of approximately 97 percent.⁴ In Phase II, the Company received permission to replace 538 COYLs, with 245 replacements occurring in 2014 and the remaining 293 replacements scheduled for 2015.⁵

9. Decision No. 72723 also authorized the establishment of the COYL Cost Recovery Mechanism ("CCRM"). The CCRM is an interim cost recovery mechanism that allows Southwest Gas to recover the capital investment associated with the COYL program. Pursuant to the terms of the Settlement Agreement, the CCRM is based upon actual costs and costs eligible for recovery (depreciation and pre-tax return). The CCRM surcharge is reset annually, and contains a cap that prevents an increase in the surcharge amount greater than \$0.01 per therm in any single year.⁶

10. Decision No. 74304 authorized capital costs associated with Phase II of the COYL program to be recovered through the CCRM, under the same parameters set forth in the Settlement Agreement with respect to Phase I.

² Decision No. 74304.

³ Settlement Agreement, at §5.18.

⁴ Exhibit 1, at pg. 1.

⁵ Id. at pg. 7.

⁶ Settlement Agreement, at §§5.15-5.16.

11. Based upon collaborations between the Company and the Arizona Corporation Commission Utilities Division Staff ("Staff"), the Settlement Agreement provides that Staff will, within 45 days, review the Company's filing and make its recommendations to the Commission.⁷

Request to Reset CCRM Surcharge Rate

12. Southwest Gas hereby requests approval to reset its CCRM surcharge rate, based upon the COYL-related capital investments made by the Company from January 1, 2014 through December 31, 2014.

13. In 2014, there were approximately \$5.6 million in capital expenditures for Phase I of the program, and approximately \$678,000 for Phase II. Utilizing the formula provided in the Settlement Agreement,⁸ the Company proposes a CCRM surcharge of \$0.00432 per therm. The Company's surcharge calculations are attached hereto as Exhibit 2.

14. The Company requests that the Commission approve the CCRM surcharge as set forth herein, effective June 1, 2015.

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⁷ Id. at §5.18.

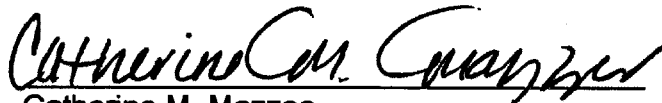
⁸ Id. at Exhibit B.

Conclusion

15. Based upon the foregoing, Southwest Gas respectfully requests that the Commission reset the CCRM surcharge as set forth herein, with an effective date of June 1, 2015.

Respectfully submitted this 27th day of February 2015.

SOUTHWEST GAS CORPORATION

A handwritten signature in cursive script, appearing to read "Catherine M. Mazzeo", written over a horizontal line.

Catherine M. Mazzeo

Arizona Bar No. 028939

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(702) 252-7283 *facsimile*

catherine.mazzeo@swgas.com

Attorney for Southwest Gas Corporation

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT 1

1. Introduction

Southwest Gas Corporation (Southwest Gas or Company) hereby submits to the Arizona Corporation Commission (Commission) its third annual report on its Customer-Owned Yardline (COYL) program. Pursuant to the Settlement Agreement approved by the Commission in Docket No. G-01551A-10-0458 (Decision No. 72723), and consistent with the goal of replacing all eligible COYLs in its Arizona service territory, Southwest Gas was authorized to establish a program to leak survey the COYLs in its Arizona service territories and to provide customers the opportunity to have leaking COYLs replaced with facilities owned and maintained by Southwest Gas.¹ In January 2014, the Commission issued Decision No. 74304, authorizing Phase II of the COYL program. Phase II allows Southwest Gas to replace COYLs (with customer consent) in coordination with the Company's other pipe replacement projects, and regardless of whether or not the COYLs are leaking.

The third year of Southwest Gas' original COYL program (now referred to as Phase I) demonstrates continued success. Under Phase I, the Company assessed 26,838 yardlines in the period January 1, 2014 through December 31, 2014. Southwest Gas discovered 2,012 leaking COYLs in 2014. As shown on Exhibit A to this report, and as detailed more fully below, 1,952 customers accepted the COYL program in the 2014 program year, and only 60 customers declined the program, resulting in a 97 percent customer acceptance rate. The Company completed 1,926 Phase I COYL replacements in 2014, with 26 Phase I replacements "in progress", and scheduled to be completed in 2015.

¹ Settlement Agreement, §§ 5.13-5.19.

The Company began its Phase II pilot project in April 2014, and had Phase II fully implemented by June 2014. The Company offered Phase II meter relocations to 1,195 COYL customers during the reporting period.

2. Overview of the COYL Program

Background

For the purpose of its program, Southwest Gas defines a COYL as the customer-owned exterior gas piping that connects at the meter and continues to where the gas piping enters the customer's premise. A diagram depicting a typical COYL installation is attached hereto as Exhibit B. Because Southwest Gas is not required to inspect or maintain facilities beyond the point of delivery (at the meter), the responsibility for maintaining the COYL rests with the customer. Southwest Gas notifies new customers of this obligation through its new customer brochure, and reminds all COYL customers to inspect and maintain their yardlines through monthly notices included with their bills.

Southwest Gas proposed the program in its 2010 general rate case, after noticing an upward trend in odor calls related to COYLs. Prior to the COYL program, a customer's only three options for remedying a leaking COYL was to: 1) pay Southwest Gas to replace the COYL with Southwest Gas facilities and relocate the gas meter; 2) hire a licensed plumber to repair the leak or replace the COYL; or 3) discontinue natural gas service.

There are several benefits to replacing COYLs with utility-owned facilities, including, but not limited to, enhanced public safety, increased pipeline safety, reliability and integrity, and routine maintenance by a Commission-regulated utility. However, before the COYL program was introduced, approximately 70 percent of customers with

leaking COYLs hired a plumber to repair or replace the COYL, and only 15 percent elected to have Southwest Gas install its own facilities and relocate the gas meter. In its first three years, the COYL program has dramatically improved upon these statistics, with more than 95 percent of customers with leaking COYLs electing to replace the COYL with Southwest Gas facilities.

As of December 31, 2014, an offer of a leak survey was made to all program-eligible customers originally identified under Phase I, resulting in more than 5,900 meter relocations since the inception of the program.

COYL Groups

As of December 31, 2014, there are approximately 88,611 active COYL customers in Arizona. As reported in prior COYL reports, Southwest Gas continues its strategy of separating COYL accounts into three groups:

- Group 1 – Customers for whom a leak inspection is conducted as part of the regular course of Southwest Gas' service (i.e. service turn-ons, odor complaints, and unusual usage investigations), and customers whose leaking COYLs might be identified through routine maintenance leak surveys on Southwest Gas facilities.
- Group 2 – Customers impacted by the Company's scheduled pipe replacement projects, whose COYLs could be replaced while additional Company or contractor resources are available nearby. Group 2 customers are now evaluated for replacement as part of Phase II of the COYL program.
- Group 3 – All remaining COYL customers, who will be contacted by the Company regarding a COYL leak inspection. In determining the leak survey schedule

for COYL customers in Group 3, the Company considers both the year the COYL was installed and any leak history that the Company is aware of.

Communications with Customers

Southwest Gas continues to employ a comprehensive communications process to explain the COYL program to customers and obtain their permission, where necessary, to conduct the COYL leak surveys. In 2013, the Company implemented a telephonic outreach component in addition to its printed customer materials. While the telephonic outreach helps the Company reach certain customers who do not respond to the printed materials, its overall effectiveness has proven limited. In 2014, the Company added a COYL webpage to its website. COYL program information can now be found at <http://www.swgas.com/coyl/>. The COYL webpage explains what a COYL is, describes the COYL program and its benefits, discusses the inspection and replacement process, and provides Company contact information for the COYL program. Information is available in both English and Spanish.

In a continued effort to increase customer responsiveness to, and participation in, the COYL program, the Company will be conducting focus groups during 2015. The focus groups will help Southwest Gas understand and better determine what messages resonate with COYL customers and what messages will better motivate COYL customers to participate in the program. In addition to testing messages to customers, the focus groups will identify what communication and customer contact methods can be improved for COYL customers. Examples of these improvements could be door-to-door interactions with customers. Southwest Gas will report on the results of the focus group studies in its next COYL annual report.

Cost Recovery

Unlike capital investments that generate new customers or increased load, Southwest Gas' COYL program is dedicated to capital investments that are non-incremental revenue producing in nature. Therefore, the Company's ability to timely recover the cost of service related to its COYL capital investment is an essential component of the COYL program. Consistent with the terms of the Settlement Agreement, Southwest Gas charges the capital investment associated with the COYL program to a capital account, and recovers the related revenue requirement through the COYL Cost Recovery Mechanism (CCRM).²

In light of the industry's heightened focus on replacing aging and leak-prone infrastructure, interim cost recovery mechanisms like the CCRM are increasingly prevalent. Indeed, nearly 89 natural gas utilities across 38 states and the District of Columbia have infrastructure cost recovery mechanisms in place.³ These mechanisms provide the following benefits:

- Eliminate impediments to investing in non-revenue producing infrastructure by providing for timely cost recovery between rate cases
- Mitigate customer bill impact by providing annual surcharge adjustments and other reasonable program conditions
- Allow regulatory oversight over utility initiatives to replace infrastructure
- Complement the rate case process by applying the same cost-of-service ratemaking principles while avoiding the need for more frequent rate case proceedings.

² Settlement Agreement. at §5.15.

³ "Innovative Rates, Non-Volumetric Rates and Tracking Mechanisms: Current List", American Gas Association (February 2015).

For Phase I, approximately \$5.6 million in capital costs were incurred during 2014. For Phase II, approximately \$678,000 in capital costs were incurred during 2014. The resulting CCRM surcharge will recover approximately \$2.5 million, and equals \$0.00432 per therm.

3. 2014 Program Results and Costs

Phase I

In 2014, Southwest Gas assessed 26,838 yardlines, of which 1,305 were determined not to be COYLs with another 3,776 determined to be ineligible for the COYL program.⁴ Southwest Gas conducted 10,001 COYL leak surveys, and found 2,327 leaks. As shown on Exhibit C, 2,012 leaks were identified as COYLs eligible for relocation – comprised of 763 leaks discovered on COYLs assessed during this reporting period, and 1,249 leaks that the Company terms “non-reportable” because they were identified in a prior year’s report as either a successful leak survey, a declined leak survey, or a customer that did not respond to the Company’s outreach.⁵ The remaining 315 leaks were identified as houseline leaks. As mentioned above, and detailed in Exhibit A, only 60 of the 2,012 customers with leaking COYLs declined to participate in the Company’s program. The average construction period was four days (from the date the contract was signed by the property owner to the date natural gas service was restored).

⁴ Examples of COYLs that are deemed ineligible for the program include COYLs that consist of above-ground piping and COYLs connected to a multi-meter manifold.

⁵ In 2014, the Company performed activities on 4,555 COYLs which were previously reported as a successful leak survey, a declined leak survey, or a non-response in a prior year.

Phase II

In an effort to increase the frequency of COYL replacements and to expedite the removal of all eligible COYLs within its Arizona service territory, Southwest Gas proposed Phase II of the COYL program, which was approved by the Commission in January 2014. Although Phase II is still in its early stages, the Company offered 1,195 meter relocations during the reporting period to coincide with its other pipe replacement projects. Of the customers offered meter relocations as part of Phase II, 538 agreed to the meter relocation and 657 declined. The Company has replaced 245 of these as of the end of the year with the remaining 293 scheduled to be completed in 2015.

Program Costs

Attached as Exhibits D and E is information detailing, by location, the means by which the leaking Phase I COYLs were discovered and the capital costs incurred. Attached as Exhibit F is information detailing the capital costs incurred for Phase II of the program.⁶ The cumulative capital costs associated with the Company's COYL replacements since the program's inception averaged approximately \$2,600 per COYL. As referenced above, the resulting CCRM surcharge equals \$0.00432 per therm (this is inclusive of both Phase I and Phase II). The average residential impact is approximately \$0.11 per month.

4. 2015 COYL Program Outlook

The Company will begin a new 3-year cycle for Phase I of the COYL program in 2015, and will continue to evaluate COYL customers for inclusion in Phase II of the program. Each division and district throughout the Company's Arizona service territory

⁶ Because Phase II COYL replacements are performed regardless of whether the COYLs are leaking, information regarding the means of discovery is not included for Phase II replacements.

will engage with its respective COYL customer groups in a systematic way that maximizes efficiencies and takes into consideration the uniqueness of each operating area (i.e., geography, COYL concentration, seasonal customers, etc.).

5. Conclusion

The results from the 2014 program year indicate that the program continues to assist COYL customers in the manner contemplated by both the Settlement Agreement and Decision No. 74304, which authorized Phase II of the program. The program therefore remains in the public interest. The Company will continue to monitor and evaluate the program, and will make any necessary program recommendations to the Commission as part of its annual COYL filings.

SOUTHWEST GAS CORPORATION

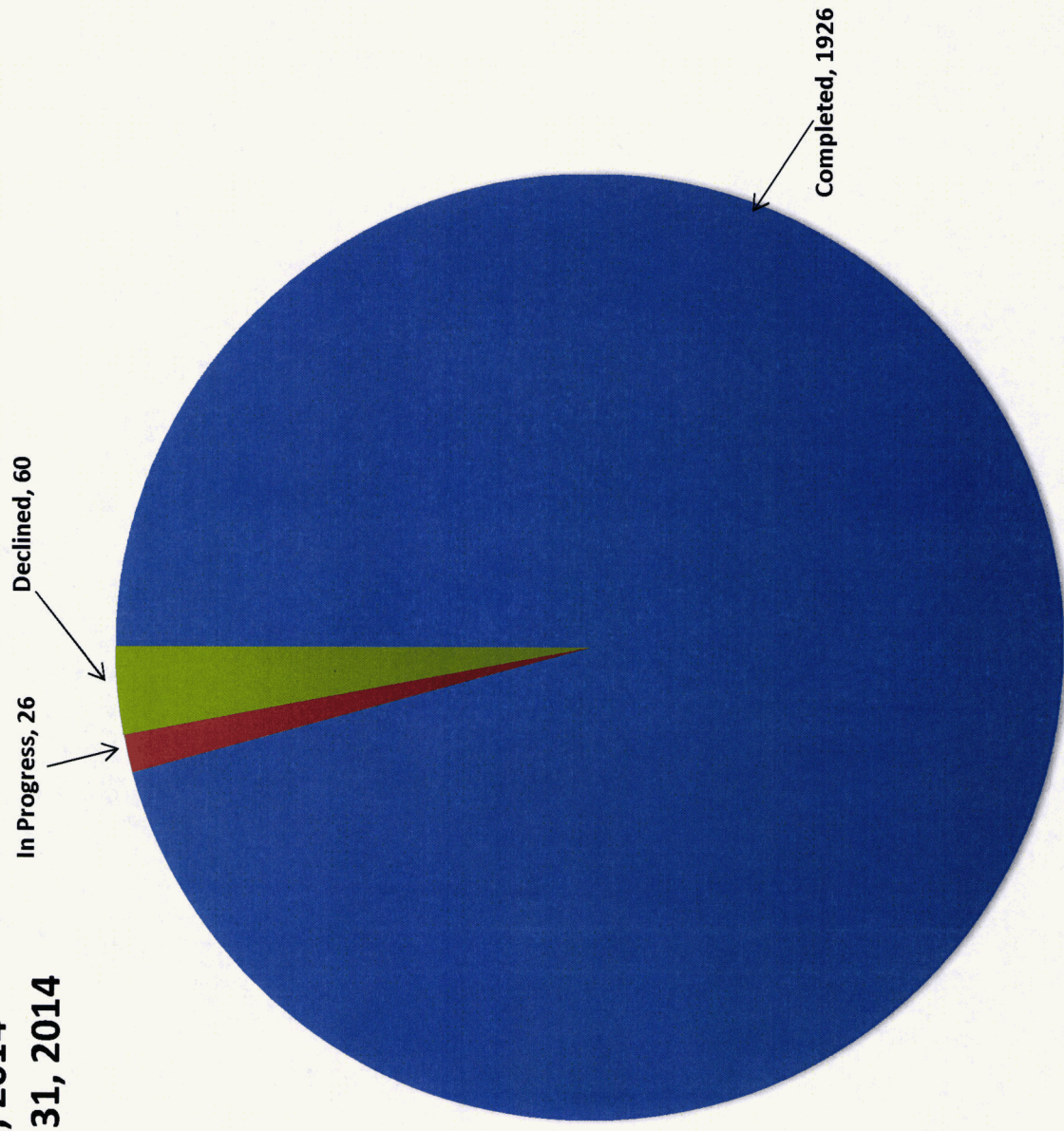
CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT A

COYL Phase I Meter Relocations

January 1, 2014 -
December 31, 2014

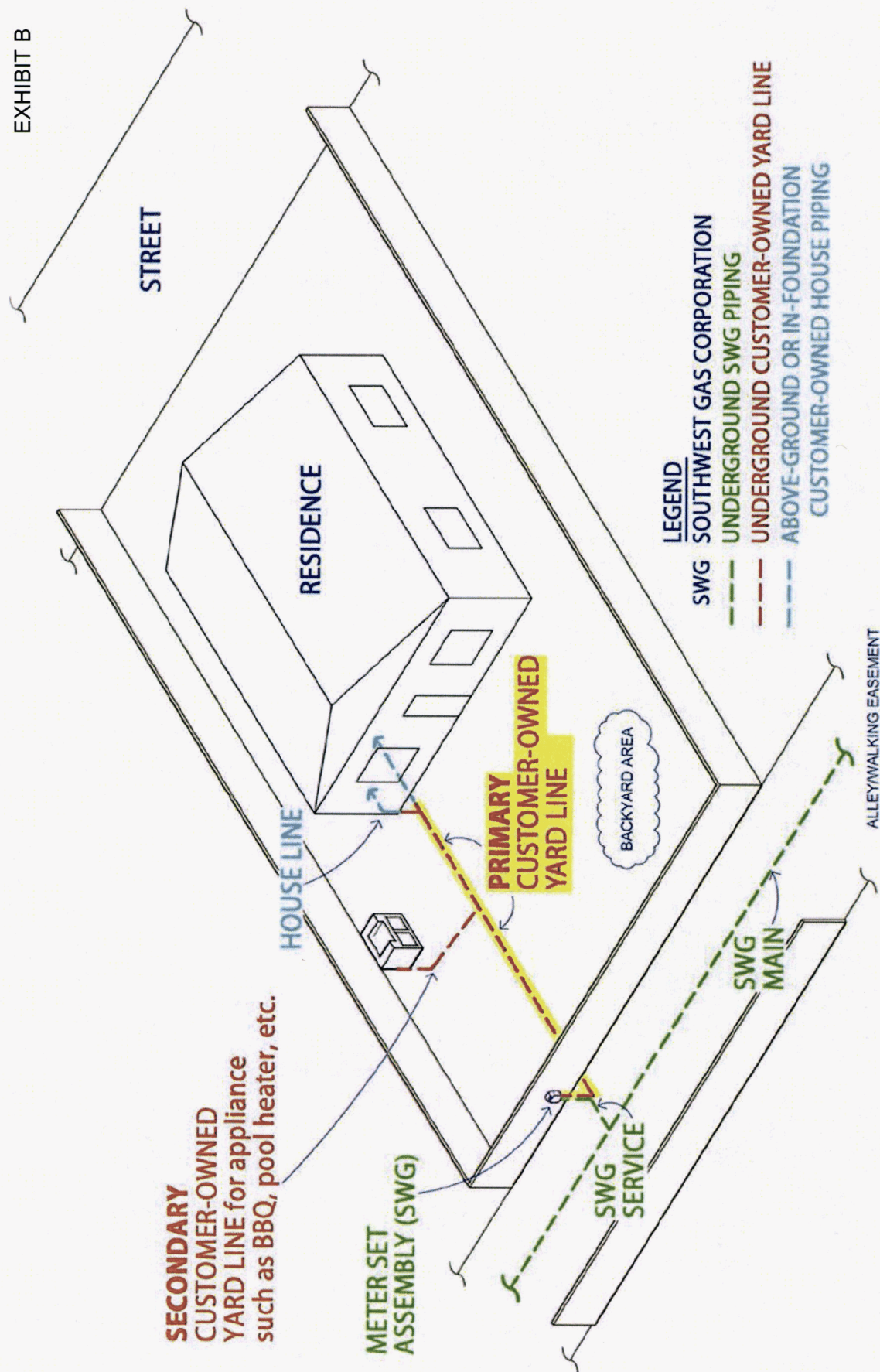


SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT B



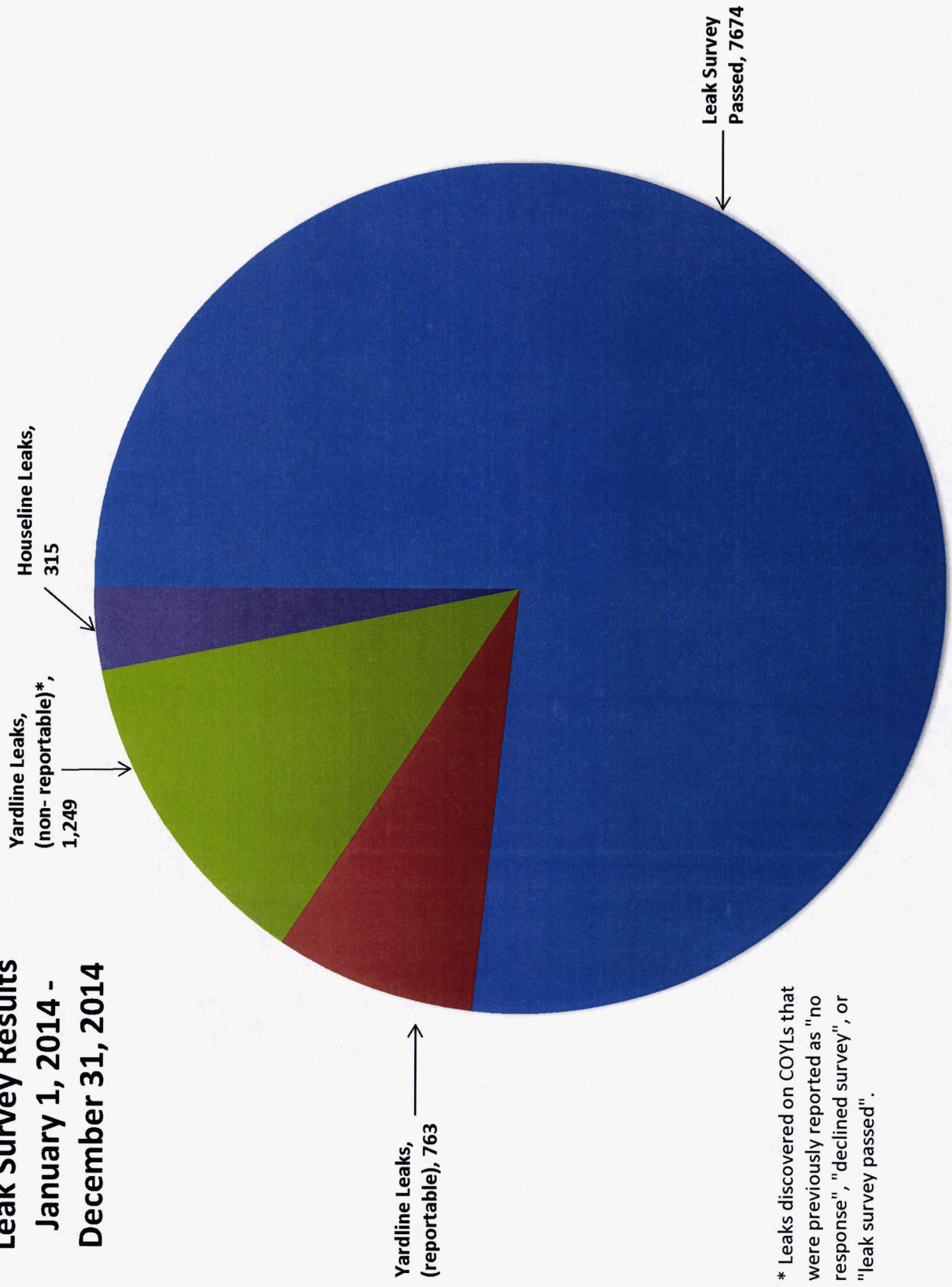
SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT C

Leak Survey Results January 1, 2014 - December 31, 2014



* Leaks discovered on COYLs that were previously reported as "no response", "declined survey", or "leak survey passed".

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT D

EXHIBIT D

CONFIDENTIAL

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CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT E

EXHIBIT E

CONFIDENTIAL

FILED UNDER SEAL

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CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT F

EXHIBIT F

CONFIDENTIAL

FILED UNDER SEAL

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CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT 2

SOUTHWEST GAS CORPORATION
ARIZONA
CUSTOMER OWNED YARD LINE (COYL) PROGRAM
SURCHARGE CALCULATION
AS OF DECEMBER 31, 2014
PROJECTED EFFECTIVE DATE 6/1/15

Line No.	Description (a)	Reference (b)	Phase 1 Amount (c)	Phase 2 Amount (d)	Total	Line No.
1	Gross COYL Plant Installed	Company Records	\$ 15,357,174 [1]	\$ 677,508 [2]		1
2	Accumulated Provision for Depreciation	Company Records	(761,299)	(937)		2
3	Net COYL Plant	Ln 1 + Ln 2	\$ 14,595,875	\$ 676,571		3
4	Accumulated Deferred Income Taxes	Company Records	(2,727,350)	(124,531)		4
5	COYL Rate Base	Ln 3 + Ln 4	\$ 11,868,524	\$ 552,040		5
6	Return on COYL Rate Base	8.95% * Ln 5	1,062,233	49,408		6
7	Income Tax Factor	Settlement Agreement	0.6579	0.6579		7
8	Income Taxes	Auth. Cost of Equity (9.5%) * Ln 5 * Ln 7	\$ 741,789	\$ 34,503		8
9	Depreciation Expense	Company Records	633,507	4,623		9
10	Revenue Requirement	Ln 6 + Ln 8 + Ln 9	\$ 2,437,528	\$ 88,533	\$ 2,526,061	10
11	2014 Full Margin Therms [3]	Company Records			584,775,930	11
12	Surcharge	Ln 10 / Ln 11			\$ 0.00432	12

[1] Balance represents \$4.1M installed in 2012, \$5.7M installed in 2013 and \$5.6M installed in 2014.

[2] Balance represents \$678K installed in 2014.

[3] Net of Low Income.